nzier
authoritative analysis

NZIER Consensus Forecasts

Embargoed until 10am Tuesday 14 December 2010

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Incorporating returns received up to Tuesday 7 December 2010

Recovery slowing, to strengthen in 2012

The NZIER Consensus Forecasts are an average of New Zealand economic forecasts compiled from a survey of financial and economic agencies. These are not NZIER's forecasts. The average forecasts do not necessarily represent the views of individual participants. Forecasts are for March years, e.g. 2010/11 refers to the year ended March 2011.

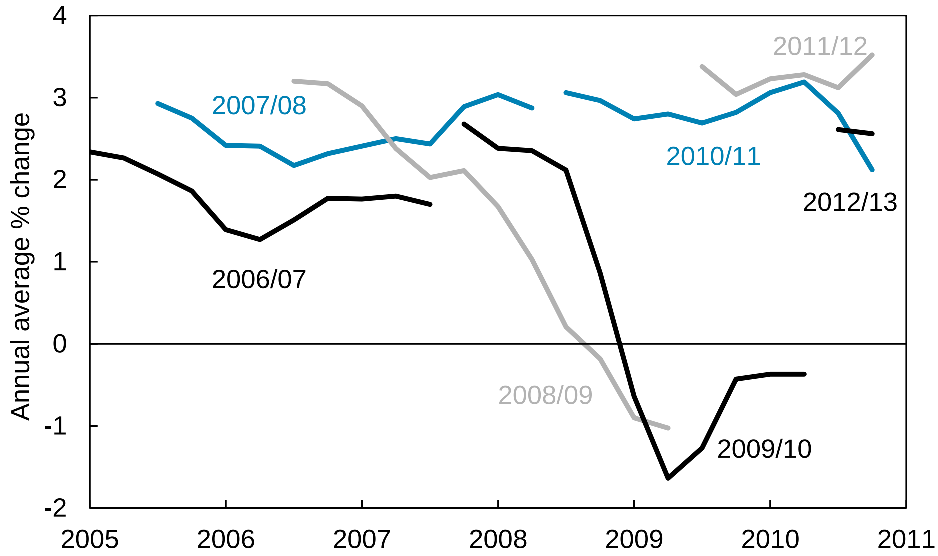
Economic forecasters expect a slowing recovery before conditions strengthen in the March 2012 year, according to the latest NZIER *Consensus Forecasts* Survey. The growth outlook remains positive, but a slow patch is now predicted in the March 2011 year compared to the September survey. Consequently, interest rate increases will be later and less than previous forecasts.

Forecasters continue to incorporate effects from the Canterbury earthquake. Views diverge significantly on the size and timing of reconstruction in the region. Economic data has also been disappointing since the September release, reflected in downward revisions to March 2011 growth forecasts. These are consistent with slowing economic conditions, before recovering from mid-2011.

Economists on average expect positive economic growth in 2011 (2.1%, down from 2.8% in the September survey) and 2012 (3.5%, up from 3.1%). But the outlook for March 2013 is subdued (unchanged at 2.6%). Revisions over the past quarter reflect a soft patch in the near term and a boost to activity in 2012 from reconstruction in Canterbury.

Consumer price inflation will spike due to GST and other policy changes, peaking at 4.6% in March 2011. Excluding one-off effects the inflation rate will be 1.6% and 2.3% in March 2011 and March 2012 respectively. Real wages will barely increase over the next two years, but personal tax cuts will compensate households for inflation from increased government charges. The labour market outlook is subdued but has improved marginally, consistent with increased employment expectations. The unemployment rate is set to trend down from 6.2% in the March 2011 year to 5.1% by March 2013.

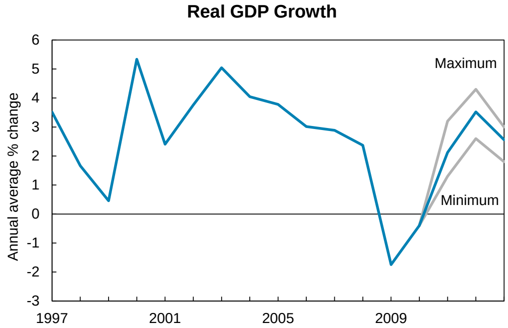
Evolution of Consensus GDP Forecasts



Source: NZIER

Recovery delayed

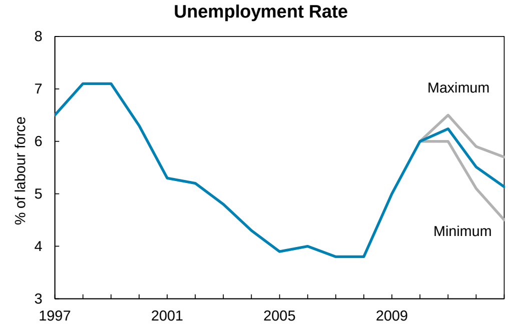
Forecasters expect a slowing recovery in the near term, but strengthening from 2012. The March 2011 year GDP forecast fell a further 0.7% to 2.1%. Forecasters expect quarterly GDP growth of 0.6% in the September quarter (data due 24 December) and 0.5% in the December 2010 quarter. Economic growth is expected to strengthen (3.5% from 3.1%) in the March 2012 year. Economic growth is forecast to moderate to 2.6% (unchanged from previous survey) in the March 2013 year. Soft domestic conditions will delay the recovery until the March 2012 year where reconstruction from the Canterbury earthquake will also boost growth.



Source: Statistics NZ, NZIER

Labour market outlook improves from 2012

The unemployment rate is stabilising, but is not expected to improve until 2012. Forecasters predict a modest rise to 6.2% in the March 2011 year, unchanged from the previous survey. The unemployment rate is expected to improve gradually to 5.1% (from 5.3% in the previous survey) in the March 2013 year as the recovery gathers momentum from mid-2011.



Source: Statistics NZ, NZIER

Trade balance to weaken

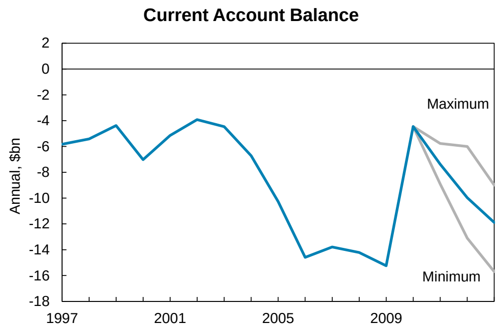
The trade balance outlook remains negative. Strong but slowing export growth will be overcome by rapidly increasing imports. Export growth forecasts are positive but have been trimmed, 2011 (2.6% from 2.8%), 2012 (4.9% from 5.2%) and 2013 (unchanged at 3.8%). There is a wide range of forecasts for the March 2012 year (2.1% to 9.1%), reflecting uncertainty over the exchange rate and global growth outlook.

Imports are expected to outpace exports in all of the forecast years, but forecasts for 2011 have been cut due to softening economic conditions. Imports are forecast to surge in 2011 (8.2% from 9.7%), 2012 (6.8% from 6.5%) and 2013 (4.8% from 4.5%).

Source: Statistics NZ, NZIER

Current account deficit to widen

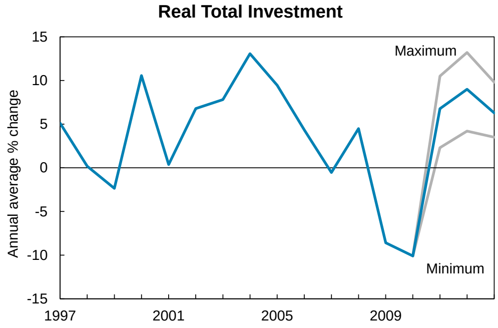
The current account deficit is expected to deteriorate. The current account was boosted in the March 2010 year by one-off tax payments by the banking sector and an improved trade balance. Slowing exports, rising imports and increased costs of financing New Zealand's large net foreign liability position are expected to widen the current account again. Views are divergent on the level, but all expect a marked increase in the deficit by March 2013.



Source: Statistics NZ, NZIER

Canterbury earthquake to boost investment

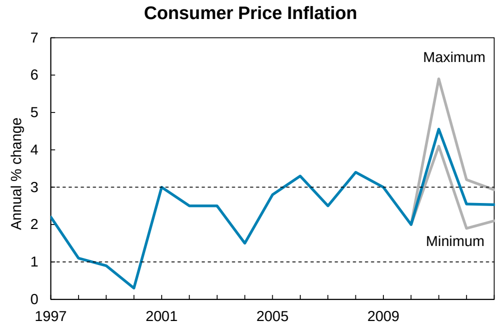
Investment activity is forecast to surge in 2011, 2012 and 2013. Forecasters expect investment to rebound strongly in 2011 (unchanged at 6.8%), 2012 (9.0% from 8.2%) and 2013 (6.3% from 4.9%). The Canterbury earthquake is expected to have significant impacts on investment. The bulk of residential reconstruction is expected to occur in the March 2012 year. Non-residential investment forecasts have increased over the forecast horizon. Economists have diverging views on the size and timing of the reconstruction impact from the earthquake.



Source: Statistics NZ, NZIER

Policy changes and GST increase to drive inflation

Inflation forecasts for March 2011 have softened since the September survey (4.6% from 4.7%), reflecting weaker economic conditions. Inflation outside of policy changes (GST, ACC and ETS) remains subdued. Excluding one-off policy increases, inflation is expected to remain within the upper end of the RBNZ's 1%-3% target band over the forecast horizon. Inflation is expected to peak in March 2011 at 4.6% and remain elevated at 2.5% in 2013. The policy changes will affect CPI inflation figures for some time.



Source: Statistics NZ, NZIER

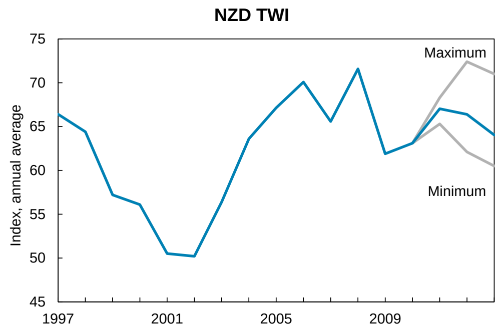
Inflation consumes wage increases

Wage negotiations are expected to ignore GST increases with wage earners fully compensated by personal tax cuts. Only gradual increases in real wages are forecast. Nominal wages are expected to grow 1.8% in March 2011 (from 1.5%), recover in 2012 (unchanged at 2.9%) and accelerate in 2013 (unchanged at 3.3%). Over the next two years general wage inflation, excluding the one-off increases will erode about 80%-90% of wage increases.

Source: Statistics NZ, NZIER

Wildly divergent currency views

Forecasters' views on the NZD outlook are wildly divergent and have increased slightly since September. Forecasts range from hitting new highs to depreciating. On average the exchange rate is expected to stabilise before dipping in 2013. The consensus forecast for the NZD trade weighted index is 67.0, 66.4 and 64.0 in March 2011, March 2012 and March 2013 respectively. An appreciating exchange rate has reduced the cost of imports, but also export incomes, providing head winds for the trade balance.



Source: RBNZ, NZIER

Previous and latest consensus forecasts

	September 2010			December 2010		
AAPC, March years	**2010/11 f**	**2011/12 f**	**2012/13 f**	**2010/11 f**	**2011/12 f**	**2012/13 f**
GDP	2.8	3.1	2.6	2.1	3.5	2.6
Private consumption	2.6	2.0	2.1	1.9	1.8	1.9
Public consumption	2.7	1.8	1.5	2.9	1.6	1.4
Fixed investment						
Residential	12.7	9.9	5.0	12.4	12.7	5.5
Other	3.9	7.7	5.6	5.3	8.6	6.4
Total	6.8	8.2	4.9	6.8	9.0	6.3
Exports, goods and services	2.8	5.2	3.8	2.6	4.9	3.8
Imports, goods and services	9.7	6.5	4.5	8.2	6.8	4.8
Consumer price index (apc)	4.7	2.6	2.6	4.6	2.6	2.5
New Zealand TWI (Ave for yr to Mar)	66.7	66.3	63.7	67.0	66.4	64.0
90 day bank bill (Ave for yr to Mar)	3.4	4.8	5.4	3.2	4.3	5.0
10 year government stock (Ave for yr to Mar)	5.6	6.1	6.3	5.5	5.8	6.0
Balance of payments (current a/c; NZ$m; Mar yr)	-6,844	-10,508	-12,376	-7,372	-9,967	-11,892
Employment (apc, Mar yr)	1.2	2.1	1.8	1.3	2.4	1.8
Unemployment rate (% of labour force; Mar)	6.2	5.6	5.3	6.2	5.5	5.1
Private sector wages (hourly; aapc)	1.5	2.9	3.3	1.8	2.9	3.3
Government operating balance (NZ$m; Jun yr)	-8,002	-4,844	-3,999	-8,441	-5,211	-4,269

Note: aapc = annual average percent change, apc = annual percent change

Summary of results – December 2010 survey

QPC, quarters	September 2010			December 2010		
	Low	Mean	High	Low	Mean	High
GDP (seasonally adjusted, qpc)	0.2	0.6	1.6	-0.2	0.5	1.0
CPI (qpc)				1.9	2.4	3.0

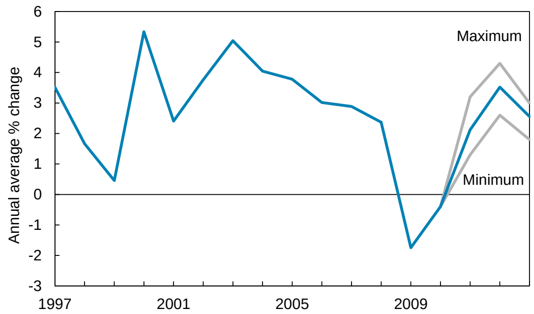
AAPC, March years	2010/11 f			2011/12 f			2012/13 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP	1.3	2.1	3.2	2.6	3.5	4.3	1.8	2.6	3.0
Private consumption	1.1	1.9	2.9	0.5	1.8	2.5	1.0	1.9	2.6
Public consumption	2.1	2.9	3.8	1.2	1.6	2.1	0.9	1.4	2.3
Fixed investment									
- Residential	1.7	12.4	22.0	0.7	12.7	26.9	-2.6	5.5	9.4
- Other	2.5	5.3	8.6	3.4	8.6	12.4	4.0	6.4	10.5
- Total	2.3	6.8	10.5	4.2	9.0	13.2	3.5	6.3	9.8
Exports, goods and services	1.5	2.6	4.8	2.1	4.9	9.1	2.3	3.8	5.0
Imports, goods and services	5.8	8.2	11.2	2.8	6.8	10.8	3.5	4.8	6.4
Consumer price index (apc)	4.1	4.6	5.9	1.9	2.6	3.2	2.1	2.5	2.9
New Zealand TWI (Ave for yr to Mar)	65.3	67.0	68.3	62.1	66.4	72.4	60.5	64.0	71.0
90 day bank bill (Ave for yr to Mar)	3.1	3.2	3.5	3.9	4.3	4.9	4.6	5.0	5.5
10 year government stock (Ave for yr to Mar)	5.2	5.5	5.9	5.5	5.8	6.1	5.6	6.0	6.5
Balance of payments (current a/c; NZ$m; Mar yr)	-8,900	-7,372	-5,767	-13,100	-9,967	-6,000	-15,700	-11,892	-9,000
Employment (apc, Mar yr)	0.5	1.3	1.7	2.0	2.4	3.5	0.9	1.8	2.4
Unemployment rate (% of labour force; Mar)	6.0	6.2	6.5	5.1	5.5	5.9	4.5	5.1	5.7
Private sector wages (hourly; aapc)	1.0	1.8	3.3	2.0	2.9	4.0	2.2	3.3	4.4
Government operating balance (NZ$m; Jun yr)	-10,391	-8,441	-4,800	-7,025	-5,211	-3,370	-6,606	-4,269	-2,402

Notes: aapc = annual average percent change, apc = annual percent change, qpc = quarterly percent change

These results show only means; standard deviations are available on request

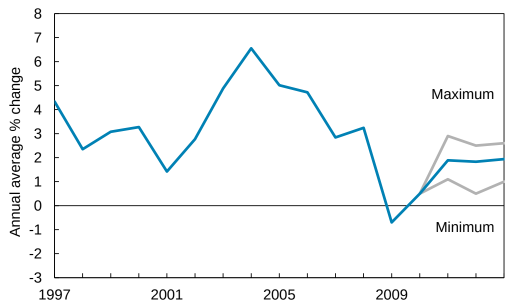
Summary charts

Real GDP Growth



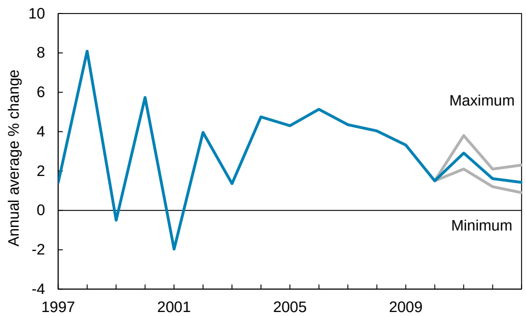
Source: Statistics NZ, NZIER

Real Private Consumption



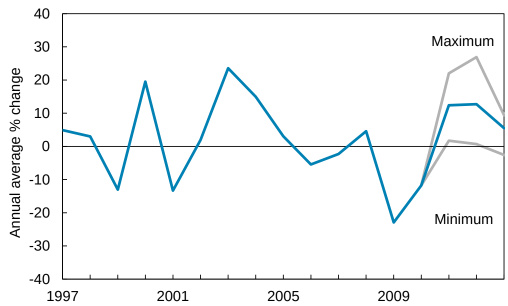
Source: Statistics NZ, NZIER

Real Public Consumption



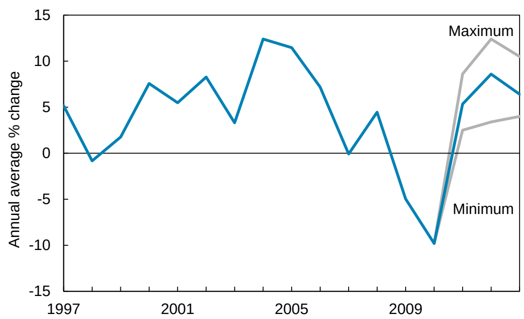
Source: Statistics NZ, NZIER

Real Residential Investment



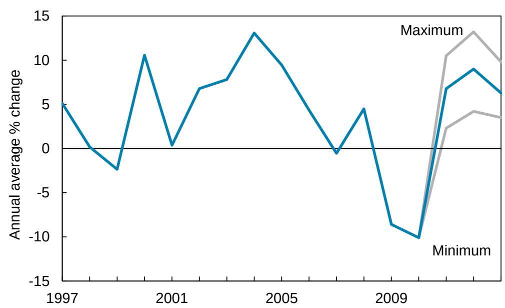
Source: Statistics NZ, NZIER

Real Other Investment



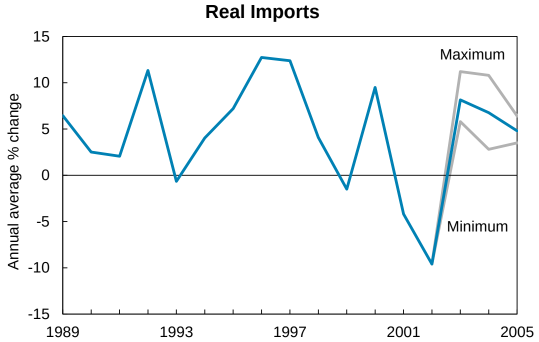
Source: Statistics NZ, NZIER

Real Total Investment



Source: Statistics NZ, NZIER

Real Imports

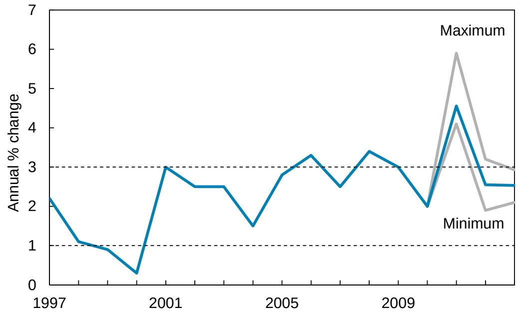


Source: Statistics NZ, NZIER

Real Exports

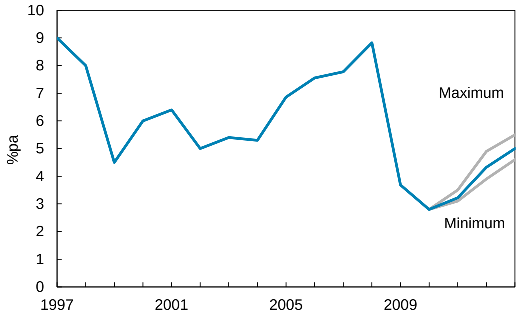
Source: Statistics NZ, NZIER

Consumer Price Inflation



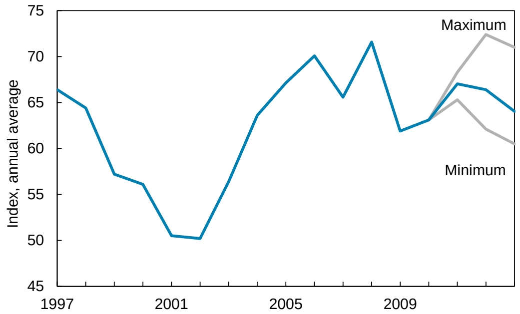
Source: Statistics NZ, NZIER

90 Day Bank Bills



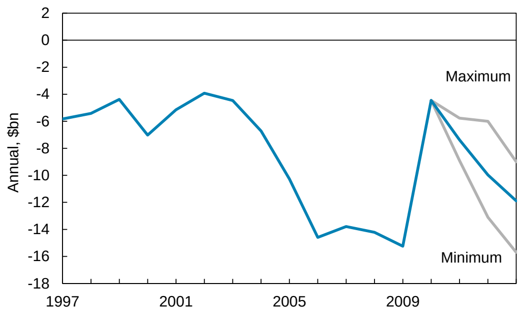
Source: RBNZ, NZIER

NZD TWI



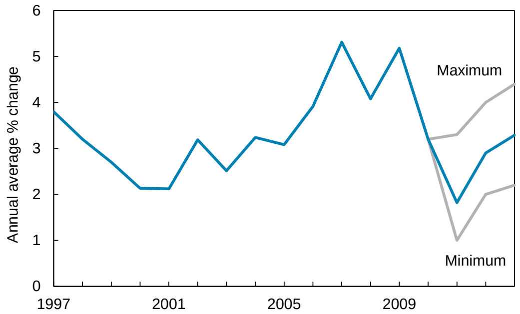
Source: RBNZ, NZIER

Current Account Balance



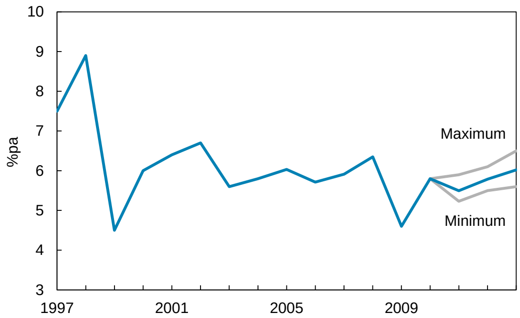
Source: Statistics NZ, NZIER

Private Sector Wage Inflation



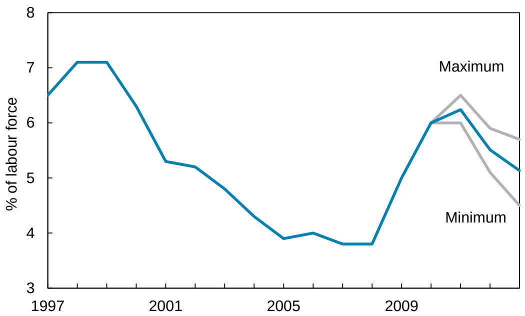
Source: Statistics NZ, NZIER

10 Year Government Bond Yield



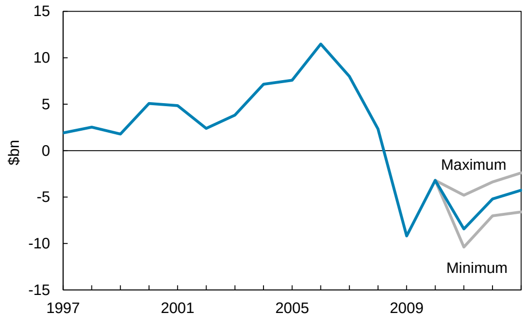
Source: RBNZ, NZIER

Unemployment Rate



Source: Statistics NZ, NZIER

Government Operating Surplus



Source: Treasury, NZIER

Respondents

ANZ-National Bank
ASB Bank
Bank of New Zealand
Deutsche Bank
First NZ Capital
New Zealand Institute of Economic Research
Reserve Bank of New Zealand
The Treasury
UBS
Westpac

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